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SUBJECT: YEMEN MOVING FAST ON WTO, MAYBE TOO FAST

11. (SBU) Summary. Yemen is making progress in trade reforms necessary for WTO accession and possible Free Trade Agreement (FTA) with the US. Key ministries have a broad mandate within the ROYG to create the necessary legislation and regulations to comply with international standards. They have created an effective inter-ministerial mechanism to direct these activities. Significant obstacles remain, however, and the ROYG will have to demonstrate to the WTO that it is actually able to implement the planned reforms. ROYG aspirations to accede to the WTO within one year, while admirable, may be too ambitious. Two representatives of Booz Allen Hamilton (BAH), funded by MEPI, shared these preliminary conclusions during a visit to Sanaa Jan. 11-12. As part of an effort to assess the ROYG's progress towards WTO, they visited officials at the Ministry of Finance (MOF), the Ministry of Industry and Trade (MOIT), Ministry of Culture (MOC), several regulatory agencies, as well as the head of the Sanaa Chamber of Commerce. End Summary.

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FOR WTO, YEMEN UNDER THE RADAR  
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12. (U) Two representatives from BAH met with members of the ROYG to discuss next steps to follow after the recent Trade Investment Framework Agreement (TIFA) talks in Washington. The delegation came to assess Yemen's progress on trade reform, both with respect to WTO accession and plans for the Middle East Free Trade Area. Though mostly informational, discussions revealed several substantive issues. Head of the WTO planning at the Ministry of Industry and Trade, Nagib Hamim demonstrated the ROYG's planning through a matrix of necessary legislation in such areas as customs, IPR, quality control, and SBS/TBT standards. MOIT coordinates an inter-ministerial process, both at the official and technical levels, to direct the overall reform process and to delegate legislative responsibilities. Draft laws exist in many of the required fields, but at this point, Hamim said, no legislation has been passed.

13. (U) Hamim said his Ministry and others are working to accede to the WTO by the end of 2004 a goal articulated by the Ministry of Planning after returning from the November TIFA talks in Washington. Hamim told Pol/Econoffs in private that the chances of achieving this goal, while not impossible, are slim. One BAH contractor noted that given the experiences of other countries and the current WTO focus on Saudi Arabia and Russia, even if Yemen were completely prepared for negotiations they would likely not gain attention in Geneva until 2006.

14. (U) The EU is currently providing seven million Euros over five years, but many areas of reform, including IPR and SBS/TBT standards, are not covered by these funds. Pol/Econoffs and several observers have pointed out that ROYG ministries lack the legal experience necessary to draft new laws and proposals for accession. BAH noted that it is difficult to find attorneys who are competent in both WTO and Yemeni law.

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ROYG and Regulation: Time to Let Go  
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15. (U) Ministry of Finance Director General for External Relations Ibrahim Al-Nahari stressed Yemen's strong banking laws and monetary policy, but suggested that there is a need for clearly defined regulatory bodies, separate from the ministries. Al-Nahari gave the example of health policy, which is currently formulated within the Ministry of Health in the form of legislation rather than independently determined regulations. (Note: Al-Nahari was less convincing on insurance regulation, which he said should be determined in the MOF. End note.)

16. (U) Kamal Al-Jebry, Director General of the Public Telecommunications Corporation (PTC) made a similar observation. The Minister of Telecommunications is currently also the Chairman of the PTC and the head of Yemen's telcom regulatory body, which is part of the Ministry. In addition, al-Jebry said, the Minister is acting CEO of the state-owned

telephone company, which competes with the private sector in the wireless market. In order to avoid accusations of conflict of interest, as well as to generate confidence among foreign investors, Al-Jebry believes that Yemen needs an independent telecommunications regulatory commission.

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Business Community Not Playing Ball  
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17. (U) Hamim pointed out that differences within the private sector are hampering reform progress. By absenting themselves from the process, business leaders prevent the ROYG from negotiating to protect their interests at WTO talks. Hamim said that the private sector is afraid of competition, suspicious of the government, and believes the ROYG is rushing the process. A conversation with Mahfoud Shammakh, Chairman of the Sanaa Chamber of Commerce, confirmed these doubts. Shammakh claimed that the business community will accept accession, but Yemen needs "to get its house in order first," through business training and anti-corruption measures. A BAH representative echoed the long-standing Post position that improvements in the business climate could be achieved through the WTO process, but Shammakh was not receptive.

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WTO: Still a Long Way to Go  
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18. (U) The BAH delegation concluded that ROYG officials do not understand the distance they must still cover to reach a viable negotiating position with the WTO. They have the enthusiasm to craft the necessary laws and regulations, but lack a clear strategy for implementation. BAH contended that the ROYG must establish credibility with the WTO by passing at least some of the proposed laws in Parliament if the rest of its plans are to be taken seriously.

19. (U) BAH confirmed that all ROYG agencies involved in WTO accession will require significant technical assistance and training to follow through on accession demands. The delegation also viewed corruption in the judiciary as an obstacle to accession, as it interferes with IPR enforcement, customs disputes, and nearly every aspect of fair trade. BAH suggested that the ROYG is unsure of how to proceed in the services sector and will be surprised by the changes necessary for trade reform. Liberalizing the telecommunications sector, for instance, is certain to prove unpopular within the government. (Note. ROYG moves in this sector in the past year reflect an increase in government involvement rather than a move towards liberalization -- to be reported septel. End note.)

110. (SBU) Comment. There are many promising signs that the ROYG is committed to the accession process. On Nov. 29, the Cabinet approved accession to the Bern Convention on IPR. The President recently announced that the ROYG plan to reduce customs tariffs to 5-10 percent, down from current rates of up to 25 percent. Despite severe capacity limitations, government agencies are making serious attempts to comply with WTO standards. However, many of these systems must be created from scratch, and the accession schedule creates tight time constraints. In addition, there is no clear political strategy or timetable for passing the necessary legislation. Trade laws do not have priority in Parliament and the legislative process is time-consuming. Moreover with Parliament's newfound strength the executive may have less leverage to enact the needed legislation for accession. Without clear political will from both executive and legislative bodies, it is unlikely that Yemen will meet its goal of WTO accession by 2006.

111. (SBU) Comment continued: Post suspects (and BAH agreed) that Sofan's one-year goal could complicate Yemen's WTO process. If the ROYG pushes accession too quickly, without investing in regulatory reforms necessary for implementation the benefits of WTO accession may not be realized. At the same time, a rushed process that results in failure in Geneva could deflate the ROYGs current enthusiasm for trade reforms. End comment.

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